



NEWS

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For more information, contact:
Mike Gowrylow
(360) 705-6603

Revenue Sets Guidelines for Apportionment for Multi-state Businesses

OLYMPIA, Wash., January 9, 2006 — A new rule to help service businesses apportion taxable activity among multiple states has been published by the Washington State Department of Revenue.

WAC 458-20-194 (Rule 194) provides formulas for calculating business and occupation tax liability when a company generates income from activities both inside and outside of Washington. The rule was developed following public hearings and a study that examined alternative approaches in terms of equity and efficiency.

The rule affects service businesses such as attorneys, architects and engineers either based inside Washington and doing some business outside Washington, or based outside Washington but doing some business inside Washington. It does not affect services provided by financial institutions.

"We believe the methods we have developed provide greater certainty and clarity than have previously existed in this area," Department Director Cindi Holmstrom said. "This rule provides a safe harbor for businesses that follow it."

RCW 82.04.460 requires companies to use separate accounting methods when available records provide an accurate reflection of gross income from Washington activities. Companies must use a cost basis method of apportionment if accurate records aren't available or separate accounting is impractical. However, RCW 82.04.460 provided no guidance as to what constituted a Washington cost, leaving apportionment methods open to a wide range of interpretation. Rule 194 provides important guidance and limits a taxpayer's risk of using an inaccurate apportionment method.

The Department will be conducting workshops around the state during 2006 and has developed an online tutorial explaining the rule. For more information on Rule 194, please visit <http://dor.wa.gov>.

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